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**WAGE DETERMINATION REGIMES  
AND WAGE INEQUALITY:  
LATIN AMERICAN CASES<sup>1</sup>**

by

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**WAGE DETERMINATION REGIMES AND WAGE INEQUALITY:  
LATIN AMERICAN CASES\***

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The impact of wage determination regimes, namely, the degree of centralization of wage-setting institutions, has been for some time under debate in OECD countries. It was argued that both, centralized ('corporatist' or, more specifically, 'social corporatist')<sup>1</sup> and decentralized bargaining structures, as opposed to intermediate structures of negotiation, restrain wage increase, thus checking inflation and stimulating employment growth, in other words, that they are conducive to superior labour market and, eventually, economic performance (*inter alia* Calmfors and Driffil, 1988; Freeman, 1988).<sup>2</sup> To identify bargaining structures emphasis was placed on some or all of: collective bargaining level and coordination; trade unions and employer organizations; and tripartite, consensus building institutions.<sup>3</sup> But some studies discussed also the effects of bargaining structures on wage inequality.<sup>4</sup> In particular, Rowthorn (1992), who analyzed the impact of centralization on labour market performance, focused in wage dispersion and employment, and also highlighted the role played by "solidaristic" bargaining;<sup>5</sup> he suggests that also the degree of wage inequality has to be considered in evaluating performance. Others examined exclusively the relationship between the level of collective bargaining and the degree of wage dispersion: from evidence for six OECD countries Zweimuller and Barth (1994) concluded that bargaining structure influences the size of wage differentials. In what follows I explore only the second, more modest, of these two, often intertwined, issues: the effects of wage determination regimes on wage inequality, through the comparative study of seven Latin American countries.

Categories such as 'centralization' and 'corporatism', questioned even in their application to OECD countries (Walsh, 1995), cannot be employed in relation to Latin American countries

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<sup>1</sup> On some of the diverse meanings of 'corporatism' see Calmfors and Driffil (1988). Rowthorn (1992) narrows the definition to ... "capitalist economies in which there are strong, and relatively centralized, employers' and workers' organizations" (:82). 'Social corporatism' was meant to refer to "the tripartite (business, labour, and the state) institutionalized involvement in the formulation and execution of economic and social policies" (Landesmann, 1992), but often is given a "consensus building" and "inequality reduction" connotation (for a thorough discussion see Teague, 1995).

<sup>2</sup> For a review of the evidence and some of its weaknesses, see Pohjola (1992).

<sup>3</sup> Calmfors and Driffil (1988), in their well cited paper, define 'centralization' of wage setting as ... "the extent of inter-union and inter-employer cooperation in wage bargaining with the other side"; this definition differs from those that are based either on the level of bargaining or "the extent to which unions and employers join in aggregate bodies with varying powers *vis-à-vis* member union and employers".

<sup>4</sup> Actually, for Freeman (1988), wage dispersion is a "hard" indicator of labour market structure, and he uses it instead of institutional variables, but together with union density, to test the hypothesis of a relationship between wage setting institutions and economic performance.

<sup>5</sup> Moene and Wallerstein (1995) discuss how in Nordic countries centralized wage bargaining emerged in the 1930s as an attempt to control wages throughout the economy in line with prices in the sectors subject to international competition; they analyze also the origins and evolution of "solidaristic" bargaining in Scandinavia (which had been proposed in the early 1950s arguing that it was favourable to macro-economic stability and efficiency, and not on the grounds that it contributed to equality), and its effective role in redistributing income among wage earners.

without further clarification. 'Corporatism' in Latin America customarily has implied the notion of strong trade union subordination to the political party in government (with Mexican "corporatism" as the archetypal example), while centralization of wage setting often was achieved by way of severe state wage control. Further, in many Latin American countries, wage determination regimes experienced drastic fluctuations over time, including the recurrent banning of free wage bargaining between workers and employers. Comparison in the present day (mid 1990s), after a relatively long-lasting period of free wage bargaining in all seven countries, has to take into consideration the substantial weight of the earlier histories of wage determination systems, that left their imprint on wage structures and the size of wage differentials. State intervention went far beyond the 'income policies' usual in Europe, in which wage control was part of explicit social accords that included macro-economic objectives, to directly fix wages in accordance with the varying economic and socio-political aims of the sector in power. Explicit "social pacts" through the workings of tripartite representative bodies were short-lived, and more often than not their decisions were of purely nominal value, never reaching the stage of effective implementation. Therefore, to analyze the impact of determination regimes in Latin American countries, the "traditional" meaning of centralization has to be replaced or redefined. And wage determination outcomes in countries where state intervention did not include the formal elimination or temporary suspension of collective negotiation - such as Colombia, Venezuela, Mexico or Peru - cannot be compared straightforwardly with those in Brazil, Argentina or Uruguay, where for a long time wages were set by governments.

Surprisingly, within the Latin American context this topic was only seldom explored.<sup>6</sup> One outstanding exception is Banuri and Amadeo (1991) who, in search of more appropriate categories to describe wage-setting institutions in Asia and Latin America, rather than constructing a numerical index *à la* Calmfors and Driffil introduce a "qualitative taxonomy" (decentralized, pluralistic, polarized, and social corporatist models) of labour market institutions, situating all the Latin American countries they examine within the "polarized" model.<sup>7</sup> The apparently simpler matter of the relationship between the institutional regime of wage determination and wage differentials received only occasional attention, mostly in individual countries. Amadeo (1993 and 1994), for instance, discussed some effects of trade union and collective bargaining trends in Brazil. Marshall (1995), focusing in Argentina, examined the impact of changes in the wage determination regime over a 20 year period, concluding that they

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<sup>6</sup> In spite of a recent surge of studies of the impact of labour market institutions on economic performance in Latin America (e.g. those sponsored by the World Bank, Rama, 1995, among others), and research in individual countries (e.g. Amadeo, 1993 and 1994), the extent to which bargaining structures or, more generally, wage determination regimes might have affected labour market behaviour (the relationship between wage and productivity growth, employment and unemployment trends) in this region still remains a controversial issue open to research.

<sup>7</sup> Banuri and Amadeo (1991) conclude that "there seems to be a hump-shaped relationship between labour market centralization and growth and stabilization performance", and highlight that "successful macro-economic performance" ... (is a function) of "the priority placed by governments on maintaining social peace" (:173).

had a marginal influence on inter-industry wage differentials. Allen and Labadie (1994) report Casacuberta and Cassoni's (1993) findings that in Uruguay reinstatement of collective wage bargaining in 1985 was followed by higher wage dispersion, and their own estimates show that in Chile wage differentials appear to have been sensitive to the sharp changes in wage setting regimes over time.

In this paper I discuss these topics with reference to Latin American countries, focusing in manufacturing wages. The study deals with seven countries where manufacturing accounts for close to or well above 20 percent of GDP (table A, Appendix). First, the analytical framework is presented briefly. Second, a number of institutional factors that contribute to define "wage determination regimes" are examined, giving a specific meaning to the notion of degree of centralization of wage setting within Latin America, and an attempt is made to give scores to the selected countries in terms of those factors. Third, inter-industry wage differentials are analyzed, with a view at assessing whether the ranking of countries according to wage dispersion bears any resemblance to their ranking in terms of the (redefined) centralization of wage negotiation. Next, the relationship between changes in wage determination regimes and wage dispersion in individual countries is examined; special attention is paid to the behaviour of wage differentials before and after the legal reforms introduced in the early 1990s to collective wage bargaining in Argentina, Chile, Peru and, to a minor extent, in Uruguay. On the basis of this double analysis, the relationship between wage setting institutions and wage inequality is succinctly discussed in the concluding section.

## **ANALYTICAL MODEL: DETERMINATION OF WAGE DISPERSION**

The wage structure is the historical outcome of the interplay of economic and social-institutional factors. It is moulded by trends in productivity and profitability differentials, and thus in the differential "ability to pay", as well as by general labour market conditions. Relative pay also reflects the comparative employment structures - in terms of gender, age, seniority, skill or education - and the labour demand/supply relationship in each economic activity. Generally, changes in the wage structure are slow, and respond to the gradual repositioning of economic activities that results from technological, regulatory and organizational change, and the ensuing shifts in dynamism and leadership. Intra-industry changes will not necessarily modify the industry's position in the inter-industry wage ranking and, further, the size of inter- and intra-industry wage dispersion may vary without having any impact on the global ranking.

The institutional factors that define the wage determination regime leave an imprint on the wage structure, as they affect the degree of wage inequality. Here, the 'wage determination regime' is a shorthand to describe the combination of a set of institutions: structures and degree of coordination of trade unions, employer associations and collective agreements; orientation of trade union policies; scope, nature and orientation of state wage intervention; and union rights, that strengthen or weaken labour organizations.

Traditionally, it has been considered that with the growth of the labour surplus wage differentials tend to widen, as the pressure of excess labour would be stronger in those activities and occupations where labour is more easily substitutable and trade unions weaker. It has been argued also that trade union intervention tends to narrow wage dispersion, not only due to the shared standards of reference for wage demands (such as the cost of living) but also because trade unions can both rise relatively the lowest wages and check wage increases in leading sectors, particularly if collective bargaining is centralized - and wage agreements take into consideration the differential "ability to pay" across activities and firms - and unions are strong. But differences in productivity and profitability trends across economic activities make growing wage heterogeneity possible, as do the diverse industry-specific labour market situations, and in certain cases trade unions may contribute to consolidate, instead of moderate, such wage differentiation. In practice, a continuous struggle to maintain the historical wage differentials across industries and firms may develop with union active participation. The orientation of union strategies (solidaristic policies or the opposite) then is an important determinant of wage outcomes.

Centralized bargaining is expected to be conducive to smaller wage differentials.<sup>8</sup> Studies of OECD countries found that the centralized Nordic countries typically show lower wage inequality than "intermediate" countries (France, Germany or the Netherlands), and that the decentralized countries such as the U.S. and Canada have the highest dispersion coefficients. But wage dispersion is high in centralized Austria, and this was what Rowthorn (1992) took into account to stress the determining role of the egalitarian aims guiding bargaining in the Nordic countries. Besides, intermediate, industry-wide bargaining not necessarily contributes to narrow inter-industry wage differentials unless a centralized body with solidaristic objectives or other homogenizing aims influences the separate trade unions, or mechanisms of bargaining coordination are in place; in principle, industry-wide negotiation should only tend to reduce wage dispersion across firms within each individual economic activity. On the other hand, weak unions have been identified generally with decentralized bargaining, while centralization has been considered to give more leverage to the labour organizations,<sup>9</sup> and consequently an inverse relationship between union strength and wage dispersion has usually been assumed. Still, centralized bargaining structures may coexist with powerless trade unions (or decentralization with strong unions), and thus union strength is an additional, independent determinant of wage inequality; unions may be even able to mitigate the detrimental impact of decentralized bargaining.

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<sup>8</sup> The level of bargaining is but one factor contributing to define the degree of centralization of wage setting (as wage outcomes will be affected also *inter alia* by whether there are centralized institutions with worker and employer representation, and by the importance of coordination mechanisms); however, negotiation confined to one firm only is likely to be a good proxy for decentralization, as in this case coordination appears to be least likely to occur.

<sup>9</sup> Such association is not necessarily applicable to all situations. On the relationships between bargaining structures and the distribution of bargaining power, see e.g. Katz (1993).

State wage policy, following macro-economic and socio-political objectives (e.g. to control inflation; rise competitiveness in the context of export strategies; improve the situation of the lowest paid; favour small firms), also shapes wage inequality. The state may abstain from intervening in wage determination; permit, stimulate, eliminate, suspend or limit collective bargaining over wages; fix wage increases in absolute or percentage terms, either similar or diverse according to industry; orient collective bargaining by stipulating either similar or variable limitations; set minimum wages. Therefore, the size of wage dispersion not only is affected by collective wage bargaining between employers and trade unions, but also by occasional or repeated state interventions, much more so if governments pervasively administer wage determination. Unless higher wage activities are favoured deliberately by larger wage increases, state wage control tends to either freeze or close the wage structure by imposing limitations or fixing uniform wage rises. However, during the periods of state wage control some kind of parallel negotiation always takes place at the firm or establishment, and therefore the (homogenizing) state wage administration functions concomitantly with some decentralized bargaining, expressed in wage drifts, that favours greater heterogeneity. The final outcome of these two factors acting in opposite directions can only be identified empirically.

## WAGE DETERMINATION REGIMES

To examine the wage determination regimes (as characterized above) regulating private sector wages<sup>10</sup> in the countries studied I consider the structure of collective bargaining, the scope and nature of state intervention, and union rights. The latter, proxied by the legal regulations on the right to strike, is one of the determinants of union strength, that we try to capture also through unionization rates. The resulting partial and total country scores are in tables 4 and 5.

### Structure of collective bargaining

The degree of centralization of wage setting depends crucially on the structure of collective bargaining. Bargaining structure, in turn, depends on the legal regime regulating collective bargaining, the actual mix of bargaining levels (centralized, intermediate or regional/industry-wide, multi employer, one firm exclusively), and the degree of coordination between bargaining units.<sup>11</sup> The structure of negotiation, *per se*, may be however insufficient to characterize wage setting, as the degree of centralization of worker and employer organizations might have an influence as well. But, on the other hand, trade union and employer centralization

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<sup>10</sup> Wage determination in the public sector, often having distinct rules, is not examined in this paper.

<sup>11</sup> Coordination among bargaining levels may be implicit or explicit, or be entirely absent (see OECD, 1994).

(the existence of one unique centralized trade union, or employer association) not necessarily suffices to achieve centralized wage determination, as they may coexist with diverse combinations of negotiation levels upon which the degree of control exerted by the central organizations is variable.

In any case, here the analysis is confined to bargaining structure in terms of *levels of bargaining*, taking into account also the nature and operation of tripartite institutions and social pacts, on their own, to rank countries in terms of degree of centralization. Some evaluation, based on the literature, of labour<sup>12</sup> and employer organizations,<sup>13</sup> and of coordination,<sup>14</sup> was taken into consideration to understand each country's actual negotiation structure; it showed that bargaining level is a good proxy for bargaining structure understood in the broader sense.

Legislation of most Latin American countries now admits simultaneous operation of different bargaining levels; this had been forbidden in Chile before 1991 and, still in 1993, despite the fact that the legal change of 1991 opened up the possibility of joint bargaining for a group of enterprises (multi employer negotiation), one-firm negotiation continued to rule almost exclusively (only 0.4 percent of all agreements in 1993 were the result of inter-firm bargaining; Chile, 1995). Except, then, for Chile, all the other six countries are characterized by hybrid

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<sup>12</sup> I will not examine here the structure, generally vertical, of trade unions in the countries selected. There are similarities but also many and complex differences in structure and functioning to deal with them just superficially; formal similarities in structures may hide substantial diversity in real operation, and in power relations.

<sup>13</sup> Employer organizations in Latin America tend to be relatively fragmented. According to Ermida Uriarte (1989) employers in Argentina, Brazil, Colombia and Uruguay are not concentrated in one central association, but are in separate organizations, divided in terms of economic sectors, that often consult each other and act in coordination. Normally, small and medium enterprises are not represented by the main associations (this was noted even in the case of Venezuela, where employer organization shows a high degree of centralization; Iturraspe, 1993; OIT, 1995). Also in Peru there are two independent central employer organizations, with little role in collective bargaining (Villavicencio Ríos, 1993), and several, apart from the main central association, in Mexico, with little involvement in industrial relations (de Buen Unna, 1993). See also Informe RELASUR 44 (1995).

<sup>14</sup> In many Latin American countries the law regulates the articulation between bargaining levels (e.g. prevalence of industry-wide over firm agreements, or prevalence of the "most favourable [to the workers]" norm, or a combination thereof; industry-wide agreements set minimum standards, and firm agreements introduce modifications), but information on actual coordination (pattern bargaining, and implicit or "hidden" coordination) is scanty. Who represents trade unions (and employers) in decentralized bargaining might also be important as this could be a source of potential coordination; in Argentina, Brazil and Uruguay, trade union representation in decentralized bargaining sometimes fell on unions placed higher in the hierarchical structure, or the latter at least participate in negotiation; sometimes one trade union signs agreements with several firms (case of, e.g., the mechanics in Argentina; Goldin and Feldman, 1995); in Brazil there is evidence of higher employer associations participating in decentralized bargaining (Goldin and Feldman, 1995); in Mexico there is some centralized trade union control over decentralized bargaining (Bizberg et al., 1993).



models of collective bargaining. These mixed models differ nonetheless in terms of whether industry-wide negotiation requires a special procedure or permit (cases of Colombia, Venezuela, and Mexico), or the law admits different bargaining levels on an equal foot (firm, industry, region, country at large, etc.). In both situations, however, only the actual structure of negotiation (i.e. the proportion of firm versus industry-wide agreements, and of workers covered by each one of them) helps to identify the dominant bargaining level.<sup>15</sup>

In Venezuela, the importance of industry-wide negotiation in terms of workers covered varied sharply between years (as much as 77 percent in 1988 but only 19 percent in 1990, for instance). Only in certain years (e.g. 1988), when the Labour Ministry's annual estimates coincide with negotiations in leading economic sectors (oil, construction), they accounted for the majority of workers covered. But firm bargaining distinctly predominates in terms of share in total agreements (OIT, 1995). Decentralized bargaining prevails in Peru (Villavicencio Ríos, 1993); this seems to have been stimulated further by the legal changes introduced in 1991-1992 notwithstanding the fact that in 1990 trade union federations had been allowed to negotiate industry wide. The prevalent model of collective relations in Colombia is decentralized negotiation at enterprise level (Urrea, 1993; Dombois and Pries, 1995). In Brazil, 65 percent of the agreements were signed at firm level in 1988 (Goldin and Feldman, 1995),<sup>16</sup> and Amadeo (1993) holds that, in spite of substantial trade union centralization, the Brazilian bargaining model is closer to a non-synchronized system.<sup>17</sup> By contrast, until the end of the 1980s, industry-wide agreements ruled in Argentina, accounting for 96.5 percent of the workers covered by collective agreements in 1990 (Goldin and Feldman, 1995); in the 1990s, after the government stimulated through legal instruments the decentralization of collective bargaining, there was a clear trend for the share of firm-level negotiation to rise, but in terms of workers covered industry-wide agreements still continued to be the most usual form.<sup>18</sup> In Uruguay,

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<sup>15</sup> The distribution of agreements according to bargaining level might be misleading as it could automatically "inflate" the share of firm agreements (simply because there are more firms than industries); anyway a growing or decreasing share of firm agreements over time gives some information on changes in bargaining structure, as does its comparative share in a cross-national analysis.

<sup>16</sup> However, the reverse might be true in terms of workers covered (estimates are not available).

<sup>17</sup> More specifically, Amadeo (1993) says that the central labour organizations intervened actively in discussing working conditions and workers' rights in the Constitution, and this could be interpreted as a sign that, in part, collective bargaining takes place at national level, but also that there is a mixed model of negotiation according to which minimum conditions are discussed centrally while firm bargaining establishes actual conditions. The Brazilian "hybrid" (intermediate centralization) system is characterized as a combination of two models, one, with growing centralization of trade unions and participation of the central organization in collective negotiation, and the other with decentralized and non-synchronized bargaining.

<sup>18</sup> The proportion of enterprise in total agreements rose from some 24 percent in 1989 to 67 percent in 1994 and 56.5 percent in 1995 (data from Ministerio de Trabajo y Seguridad Social, *Boletín de Estadísticas Laborales*, 28, 1 trimestre, 1995).

industry-wide agreements distinctly predominate,<sup>19</sup> while in Mexico the situation is less clear, in that while firm bargaining tends to prevail over industry-wide agreements, centralization through trade union federations also plays an important role.<sup>20</sup>

Accordingly, we have, tentatively, on one extreme Argentina and Uruguay; Mexico, Venezuela and Brazil in the middle; and Peru, Colombia and Chile on the other extreme, approximately in this order (but information is too sparse to rank accurately individual countries within each one of the three groups); in any case, Chile continues to be the outstanding example of almost exclusively one-firm bargaining.

Centralized wage determination by tripartite bodies with participation of autonomous trade unions, not subordinated to the state, is rare in Latin America. Several attempts, some of which by the mid 1990s, at centralized tripartite determination of wages together with other issues ("*concertación*") took place, among others, in Argentina, Uruguay, Brazil, Mexico and Venezuela, but met with little or ephemeral success, and labour's influence often was negligible.<sup>21</sup> Both in Venezuela and Mexico the links between trade unions and the government have been strong but they are best characterized by "corporatism" in the Latin American version, and the tripartite institutions are very far from the representative bodies *à la européenne*.<sup>22</sup> On the other hand, we find tripartite bodies at different levels of wage determination: in Uruguay industry-wide wage agreements are reached basically in the wage

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<sup>19</sup> More details in Goldin and Feldman (1995).

<sup>20</sup> By the end of the 1970s Bronstein (1978) observed that although firm bargaining was the type of collective negotiation most widespread in Mexico, industry-wide agreements were important. According to Bizberg et al. (1993), there is highly centralized bargaining within those economic activities that have *contratos-leyes* (industry-wide agreements) that define minimum conditions, and individual firms are able to make upward adjustments. In individual firm bargaining state intervention is high, as it is necessary to obtain state validation of the agreements. Further, the vertical structure of trade union organization means some centralized control over individual firm bargaining via the affiliated sectional unions.

<sup>21</sup> See Informe RELASUR 44 on historical precedents and more recent "social pacts" in the Southern Cone (1995). Failed or purely formal/symbolic attempts took place in Argentina and Brazil in the 1980s. The 1984-85 social pact in Uruguay also was short lived. In Chile, with the return to civilian government, some accords were reached with worker participation, but they did not include wages (only minimum wages). In Venezuela the attempts at social accords are of earlier origin but still with little effectiveness (OIT, 1995; Iturraspe, 1993); the tripartite commissions became thoroughly discredited after some fifteen years of existence, and labour and management played an insignificant role (Ellner (1993). On tripartism and the several social pacts in Mexico, and the weakness of workers and employers within the tripartite bodies, see de Buen Unna (1993).

<sup>22</sup> See Zapata (1989) on the Mexican case, showing the high level of trade union-state intertwining, even though not always through formal tripartite bodies. Pervasive government-union political exchange often meant that the state fixed top limits to negotiated wage increases. In Venezuela trade union subordination to the state was not of the same nature as in Mexico, and the interpretation stressing that labour organizations were not autonomous was questioned (see Ellner, 1993).

councils, of tripartite composition,<sup>23</sup> and in Colombia trade unions participate in the institutions in charge of establishing minimum wages.

But in several of the Latin American countries considered here, instead of centralization through tripartite bodies with representation of non-state-subordinated unions, the historically hegemonic form of centralized wage setting has been through state centralization.

### **State intervention**

Direct wage control has been the most conspicuous form of state wage determination in Latin America, but government intervention in wage setting took many other forms, some of which were masked by the formal institutions operating at the time. In several countries wages were intermittently either directly fixed (collective bargaining suppressed or suspended) or administered by the state. This included imposing wage freezes (e.g. Argentina in 1976), fixing wage increases in absolute or percentage terms (Argentina, Brazil),<sup>24</sup> and establishing limitations (tops, ranges) on wage increases in terms of, for example, productivity (Argentina and Peru after 1991, but also in earlier periods, and in some of the other countries).<sup>25</sup> State intervention tended to either freeze the pre-existing wage structure or to close wage differentials, notably by establishing increases in absolute terms,<sup>26</sup> but sometimes the declared purpose has been instead to promote the decentralization of wage determination and greater wage differentiation (as we will see below this is what happened in the 1990s).<sup>27</sup> State direct wage setting was generally but not exclusively associated with military regimes: in Argentina there was state wage control (and not for the first time)<sup>28</sup> from 1976 until 1982 under the military government, but also in 1984-88, during the civilian government under Alfonsín's presidency;

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<sup>23</sup> See Informe RELASUR 42 (1995).

<sup>24</sup> Marshall (1995); Sabóia (1993). In the case of Chile, indexation to past inflation was a government recommendation to the private sector (1973-79), later legislated (1979-82), but there is discussion as to its effectiveness (García, 1993).

<sup>25</sup> See e.g. Londoño Botero (1989) and Zapata (1989) on salary restrictions in Colombia and Mexico, respectively. In Uruguay the state continued to intervene in wage setting after full collective negotiation was reinstated in 1985 (Informe RELASUR 42, 1995),

<sup>26</sup> This happened often e.g. in Argentina (Marshall, 1980).

<sup>27</sup> An earlier example of government promotion of wage heterogeneity (Argentina, 1976-82), and the reasons accounting for its failure are discussed in Marshall (1988).

<sup>28</sup> See Cortés and Marshall (1994).

both in Brazil, from 1965 and until some time during the 1980s,<sup>29</sup> and Uruguay, from 1973 and until 1985, wage control was under military rule.<sup>30</sup> During the periods of wage control collective bargaining was not always entirely absent but was sporadic and without much significance.

In other countries, or in those already cited but at times of free wage bargaining, state validation (*homologación*) of bilateral agreements may be required, and the government may make use of this requisite according to its macro-economic (e.g. control of inflation) or other objectives to administer wages. This was the case in Uruguay after 1985, when the government did not validate the agreements reached by workers and employers if the increase exceeded by far what it considered admissible, transforming the agreement into just a private accord (Rodríguez, 1993). Still in other cases, namely Mexico, tripartite institutions were considered to have served to instrument government wage policies, as state wage guidelines were endorsed and implemented by trade unions (Bizberg et al., 1993; de Buen Unna, 1993).

## Union rights

The right to strike is but one of the legal union rights that were devised or manipulated to either favour or demobilize trade unions and the effectiveness of their actions. Legal rules may be intended to encourage or discourage affiliation; and to empower unions by granting to one organization monopoly of representation and by ensuring sources of financing, or either to fragment the labour organization, limit access to financial resources, and restrict union formation imposing requisites such as minimum firm size. Conflict resolution may be made more favourable to the workers or not, depending on which are the arbitration and conciliation rules. I consider the regulations on strikes to indicate the strength of union rights.

To classify countries in terms of the permissiveness of strike regulations prevailing in the 1980s I examined the strictness of the requisites stipulated to declare a strike legal (regulations on procedure); limitations to (e.g. maximum duration permitted) and banning of the right to strike in public or essential services, however defined; whether it is allowed to contract replacement workers or not; workers' entitlement to wages during strikes; employment security

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<sup>29</sup> See Sabóia (1993). Collective bargaining was permitted in theory but was negligible in practice. Wage policies changed from annual uniform wage adjustments between 1965 and 1979 to more frequent adjustments later. State direct wage setting, in different forms, continued throughout the early 1990s but now it established the "floor" to be raised by negotiation, mainly at firm level.

<sup>30</sup> Although there were some isolated agreements at that time, during the wage control period working conditions were unilaterally established by employers and wages were adjusted following state prescriptions. Late in 1983 the government confined its intervention to the minimum wage and wages of rural workers, but collective bargaining did not flourish as trade unions had been partially dismantled and restrictions on individual and union rights continued (Informe RELASUR 42, 1995).

of strikers; sanctions to workers involved in illegal strikes; and rules on solidarity strikes.

While in the early 1990s the right to strike was admitted in all the countries studied, actually it had been restored in Uruguay in 1985, severely restricted in Brazil until the 1988 new Constitution and in Chile until limitations were slightly relaxed in 1991. By contrast, at the end of the 1980s some constraints in so-called essential services were introduced in Argentina, and in Peru and to a minor extent in Colombia legislation became more restraining in the 1990s. While Colombia compares unfavourably with the remaining countries, the right to strike in Chile is the most restricted, even after the reforms: it is the only country where substitution of strikers is permitted (this is specifically prohibited in Argentina, Brazil after 1989, and Colombia) and strikers may be dismissed if the strike exceeds 60 days (in Brazil from 1989, and in Venezuela, the dismissal of strikers is explicitly forbidden).

The nature of the right to strike contributes to define union strength. But actual strength in the private sector is difficult to gauge. Unionization rates provide only a partial view and, besides, estimates of unionization rates in manufacturing (for the 1980s) are at best frail (table B, Appendix);<sup>31</sup> there is a "feeling" of later union decline and loss of membership, although estimates of unionization rates in the 1990s are even rarer than in previous years. Indeed, strength is not necessarily correlated with membership, as in many Latin American countries it rests more on political influence and "exchanges" with the government, parties' support, and mobilization capacity.

Coverage of the collective agreements generally is much more widespread than union membership, particularly where the terms agreed collectively are legally extensive to all workers in the firm or industry, irrespective of trade union membership (*erga omnes* clause). Such is the case of Argentina,<sup>32</sup> Brazil, Uruguay, Mexico and Venezuela (at least as from 1990). In Colombia and Chile, the latter since 1991, non-union members may enjoy the terms agreed collectively, at the expense of paying a fee to the union; in Colombia the possibility of generalization to non-union members depends on the unionization rate, as does in Peru from 1992. Legal coverage, of course, as with all other aspects of labour laws, may differ from coverage in practice, depending on how effective is the enforcement of the wage rates agreed. The distance between legal and real coverage probably is wider in countries or industries with more centralized negotiation; it would be more difficult to evade, and less motives to do so, the terms agreed at firm level, that exclusively apply to the economic unit.<sup>33</sup>

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<sup>31</sup> Generally unionization rates are calculated against the labour force as a whole, while here we are interested in union influence on wage earners in manufacturing. Further, figures generally sum together public and private sector union membership while both sectors are very distinct in this respect.

<sup>32</sup> But non-union members may be excluded from special benefits (table on comparative collective bargaining systems in the Southern Cone, *Revista de RELASUR*, 6, 1995).

<sup>33</sup> Evidence of the extent of non compliance with wages set in collective agreements is not available.

## INTER-INDUSTRY WAGE DISPERSION

Two steps are followed below to examine the influence of the wage determination regime on the wage structure. First, wage dispersion is compared across countries. Then, an exploratory attempt is made to assess changes over time in individual countries that introduced reforms in the wage determination regime in the early 1990s. The analysis focuses in manufacturing wages,<sup>34</sup> the sector for which more information is available.<sup>35</sup>

Behind the wage structure is the structure of manufacturing - which are the leading activities, what activities show fastest productivity growth rates and the greatest "ability to pay", which are the most skill-intensive, which is the degree of export versus domestic market orientation of each industry. The *structure* of manufacturing wages reflects the impact of economic determinants. Inter-industry wage structures are quite similar across countries (table 1), particularly those with comparable industrial structures and advance in their industrialization process (as proxied by share of metal and machinery industries; table A, Appendix), cases e.g. of Argentina, Mexico and Brazil. In each country, the wage structure has been rather stable over time (table 2).<sup>36</sup> As regression analysis is precluded by the nature of the information available, both similarity across countries and stability over time in the wage ranking facilitates the study of the potential impact of wage determination regimes on the size of wage differentials.

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<sup>34</sup> Data are on earnings, and in this way capture any potential wage drift over state fixed or collectively agreed rates.

<sup>35</sup> Freeman (1988) found that in OECD countries "the pattern of cross-country wage differentials by industry displays much the same pattern as cross-country differentials by skill, by sex or by age" (:68).

<sup>36</sup> The correlation is lower in Argentina but this might be due to data problems, as the 1980 figures used in this analysis, published by UNIDO in 1988, ceased to be included in UNIDO's later similar publications. Marshall (1995), using data directly from national sources, found association between 1975 and 1990, as well as between 1982 and 1990.

Table 1. Comparative wage structures in manufacturing, 1980 and 1990-1

Selected Latin American countries

correlation coefficients (top, 1980; bottom, 1990-91).

	Argentina*	Brazil	Chile	Colombia	Mexico	Peru	Uruguay	Venezuela
Argentina	1.00	0.78 0.82	0.65 0.70	0.69 0.74	0.58 0.89	0.60 0.75	0.48 0.77	0.80 0.67
Brazil		1.00	0.70 0.77	0.70 0.78	0.86 0.87	0.70 0.75	0.52 0.82	0.69 0.77
Chile			1.00	0.69 0.64	0.58 0.62	0.73 0.73	0.51 0.63	0.70 0.71
Colombia				1.00	0.81 0.79	0.71 0.85	0.59 0.88	0.78 0.84
Mexico					1.00	0.75 0.72	0.57 0.76	0.73 0.62
Peru						1.00	0.27 0.70	0.69 0.71
Uruguay							1.00	0.72 0.85
Venezuela								1.00

\* data on Argentina for 1980 might be not accurate, as they ceased to be published by UNIDO after 1988

Source: own estimates based on UNIDO, *Handbook of Industrial Statistics*, Vienna, 1992,  
and U.N., *International Yearbook of Industrial Statistics*, 1995 (wages per employee, current dollars).

Table 2. Wage structures in manufacturing:  
comparison over time in each country

Selected Latin American countries

correlation coefficients

	R (1986/7 1993/4)*	R (1980-1990)**
Argentina	.91 <sup>a</sup>	.66 <sup>b</sup>
Brazil	nd	.93
Chile	.88	.90
Colombia	nd	.95
Mexico	.51	.91
Peru	.60	.96
Uruguay	nd	.73
Venezuela	nd	.88

<sup>a</sup> 1990 and 1994

<sup>b</sup> see note a in table 1

\* data from ILO

\*\* data from UN/UNIDO

Sources: Own estimates on the basis of ILO, *Yearbook of Labour Statistics*, Geneva, several years; UNIDO, *Handbook of Labour Statistics*, Vienna, 1988 and 1992; UN, *International Yearbook of Industrial Statistics*, 1995.



## Cross-country analysis

In the Latin American countries considered, the degree of *wage dispersion* (table 3) typically is larger than in European countries. Further, in comparatively centralized Latin American countries, such as Argentina and Mexico, the degree of wage dispersion is about Canada's (one example of decentralized bargaining in the OECD context) coefficient, but in Chile, one of the most decentralized Latin American countries, it is far higher than in Canada.<sup>37</sup> One may speculate that this is related to the fact that inter-industry heterogeneity (basically, productivity differentials) is much higher in Latin American than in the advanced countries, but also that the homogenizing role of stronger unions in the latter surely is not negligible.

But while dispersion coefficients are generally higher in Latin America than in advanced OECD countries, the range of variation of the coefficients across countries is narrower in the former than in the latter: the distance, e.g. between intermediate and decentralized countries is much shorter in Latin America than within Europe,<sup>38</sup> and this even though in terms of economic and industrial structures Latin American countries differ from each other probably much more than European countries do. Whether this is the result of more similar cultural and socio-institutional histories in Latin America (strong state intervention, little labour autonomy, weak union organizations), or of other factors is an interesting issue that requires investigation, but is beyond the scope of this study.

*Circa* 1990, there is some indication of an inter-country association between degree of wage dispersion within manufacturing and bargaining structure (that in this "sample" of countries varies from intermediate to fully decentralized, the first in turn differing in whether industry-wide or firm agreements predominate), combined or not with the extent of state wage control and of union strength,<sup>39</sup> but only in the sense that Brazil, Chile and Peru show larger

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<sup>37</sup> The un-weighted coefficient of dispersion corresponding to the inter-industry wage structure is about .16 in the Netherlands and Germany, .24 in Canada, .24 in Mexico, .26 in Argentina and .35 in Chile (ILO data, for 1993/4, with very slight differences in the industries included in each country). Rowthorn (1992) shows coefficients of variation (weighted by employment, not done here) for OECD countries: the U.S. and Canada's wage dispersion is exceeded only in Japan; Germany's and the Netherlands' are similar to France and Norway, and higher than Sweden, Denmark and Italy.

<sup>38</sup> The range of variation of the dispersion coefficient is narrow; it is narrower than in Europe (according to the weighted coefficients in Rowthorn, 1992) even if the centralized Nordic countries are excluded. Dispersion is some 24 percent higher in Uruguay (intermediate) than in Chile (decentralized), while in decentralized UK it exceeds by over 40 percent the coefficient in intermediate countries like Germany, France or the Netherlands, although much less in relation to Belgium.

<sup>39</sup> There is information on four economic sectors (mining, manufacturing, construction, transportation) for a few countries (ILO, op. cit.) that, for 1985-6, shows greater wage dispersion in Chile (.43), followed by Peru (.22), than in Brazil (.14).

Table 3. Wage dispersion in manufacturing

Selected Latin American countries

Coefficient of dispersion (standard deviation/average)

	ILO 1986-87	ILO 1993-94	UNIDO 1973	UNIDO 1979/80	UN 1980	UN 1990-91
Argentina	.31 <sup>a</sup> .25 <sup>b</sup>	.26 .21 <sup>b</sup>	41	45	.42 <sup>c</sup> .20 <sup>nd</sup>	.36 .29 <sup>a</sup>
Brazil	nd	nd	31	29	.35	.41
Chile	.38	.35	20	30	.31	.39
Colombia	nd	nd	27	24	.25	.30
Mexico	.20	.24	34	37	.33	.35
Peru	.34	.50	nd	nd	.28	.38 <sup>c</sup>
Uruguay	nd	nd	nd	29	.29	.33
Venezuela	nd	nd	23	25	.23	.36

<sup>a</sup> 1990<sup>b</sup> estimates based on data from national sources, earnings per hour (INDEC, Encuesta Industrial, in Marshall, 1995)<sup>c</sup> see note a in table 1<sup>d</sup> 1983<sup>e</sup> 1987

ILO: earnings per hour except Peru (per day) and Chile (per month), current prices

UN/UNIDO: wages per employee (current prices, in dollars)

Sources: Own estimates on the basis of ILO, *Yearbook of Labour Statistics*, Geneva, several years; UNIDO, *Handbook of Labour Statistics*, Vienna, 1992 and UN, *International Yearbook of Industrial Statistics*, 1995. For 1973 and 1979, UNIDO, *Handbook of Industrial Statistics*, 1984.

Table 4. Wage determination regimes

Selected Latin American countries, 1980s

	unionization rate in mfg	right to strike	bargaining structure	tripartite bodies	state wage control	total score (1)	total score (2)
Argentina	3	3	3	1	1	8	8
Brazil	2	1 <sup>a</sup>	2	1	1	6	5
Chile	2	1	1	1	0	4	3
Colombia	1	1	1	1 <sup>c</sup>	0	3 <sup>c</sup>	3 <sup>c</sup>
Mexico	2	3	2	2	0	6	7
Peru	3	3	1	1	0	5	5
Uruguay	3	3 <sup>b</sup>	3	2	1	9	9
Venezuela	2	2	2	2	0	6	6

Unionization: 1, low; 2, intermediate; 3, high

Right to strike: 1, restrictive; 2, intermediate; 3, permissive

Bargaining structure: 1, decentralized; 2, hybrid (combination firm/industry-wide), with predominance of firm bargaining; 3, hybrid, with industry-wide predominance

Tripartite bodies: 1, none or ephemeral; 2, more lasting (see text)

State wage control: 0, none or occasional; 1, pervasive (see text)

*Total score:* (1) considers unionization rate and not right to strike, both indicating union strength; (2) the opposite.

<sup>a</sup> considering that strike activity was on the rise during the 1980s, and that some have argued that the harshly restrictive strike legislation was somewhat ineffectual, the score here would be '2'

<sup>b</sup> as from 1985; earlier it was restrictive (military regime)

<sup>c</sup> if tripartite minimum wage setting is considered, Colombia's scores would be 2, 4 and 4, respectively.

Source: own estimates (see text).

Table 5. Wage determination regimes and wage dispersion

	Score (1)	Score (2)	Wage dispersion 1990
Uruguay	9	5	33
Argentina	8	4	36
Mexico	7(6)	4	35
Venezuela	6	4	36
Brazil	5(6)	3	41
Colombia	3 <sup>a</sup>	2 <sup>a</sup>	30
Peru	5	2	38 <sup>1987</sup>
Chile	3(4)	2	39

<sup>a</sup> 4 and 3, respectively, if tripartite minimum wage setting is considered

Score (1): score 2 in table 4 (score 1, if different, in parenthesis).

Score (2): bargaining structure including tripartite institutions.

Sources: tables 3 and 4.

coefficients than Argentina, Uruguay, Mexico and Venezuela (tables 4 and 5).<sup>40</sup> Within each group, the values of the coefficients are not always consistent with the institutional differences. Further, Colombia stands out in that its coefficient of dispersion does not fit with its decentralized bargaining structure. The fact that in Colombia the proportion of firms paying close to the minimum wage is high, and that minimum wage policy (enacted by centralized, tripartite bodies) repeatedly affected the wage structure, might contribute to explain the anomaly.<sup>41</sup> Such minimum wage influence on manufacturing wage differentials would not be present or would be negligible in the other six countries, with the exception, perhaps, of Chile in the 1990s, as I discuss below.<sup>42</sup> Trade union (successful) claims for minimum wage rises seems to have contributed to reduce wage inequality in Colombia. The combination between a kind of solidaristic trade union attitude (implicit in the struggle for minimum wage increases) and weak, atomized labour organizations, that were unable to match minimum wage increases with wage rises in the leading industries, may explain this "downward" case of wage homogenization.

It does not seem to be pertinent to seek for the influence of bargaining structure on wage dispersion in earlier years (e.g. 1973 and 1980; table 3). Notably, wage inequality was higher in Argentina, at that time under state wage control, than in any other country. As the countries moved to longer periods of uninterrupted and freer wage negotiation (Argentina from 1988; Brazil gaining momentum along the 1980s; Uruguay from 1985; Chile from 1979), wage dispersion seems to have become more closely associated with bargaining structure. In the past, centralized state wage control in some countries (with varying orientations), coexisting with free

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<sup>40</sup> If instead of the (un-weighted) coefficients of variation presented in table 3 the standard deviations of log wages are examined, Argentina, Mexico, Uruguay and Venezuela are repositioned slightly *vis-à-vis* each other.

<sup>41</sup> Comparing Colombia and Mexico, Bell (1995) found that while in Mexico minimum wages virtually had no effect on the formal sector, where wages are far above the minimum (and, further, only some 15 percent of firms in the three lowest wage industries were paying below 1.5 times the minimum wage), in Colombia the impact is more substantial as minimum and average wages are closer (and the proportion of firms paying unskilled wages below 1.5 times the minimum was 27.1; all industries). Minimum wage/manufacturing wage ratios were: Colombia (1987), .52, manufacturing unskilled wage, and .39, skilled wage; Mexico (1987), .40 (1990: .31), manufacturing blue collar wage (Bell, 1995).

<sup>42</sup> The higher the proportion of industries/firms paying about the minimum wage (either because the minimum wage was set relatively high or because the average wage is low), the more important would be the narrowing effect of a rise in the minimum wage on wage inequality. An approximation to this is the ratio minimum wage/average wage (in manufacturing in our case) as, if the distance is very large, one may reasonably suspect that the proportion of firms/industries paying the minimum wage is low. In most countries, this ratio has fluctuated over time, sometimes sharply. Sparse data suggest that the minimum wage has the least incidence in Argentina.

bargaining in others, introduced some "distortions" that affected cross-country comparisons.<sup>43</sup>

The comparative degrees of wage dispersion intra Latin America might be expressing also the influence of cross-country differences in the sizes of inter-industry productivity gaps<sup>44</sup> and in the (gender,<sup>45</sup> skill, etc.) composition of employment of each industry (that at this stage it proved impossible to examine), as well as in their global labour market situations. While the latter do differ, particularly in terms of open unemployment (table B, Appendix) and employment trends, at first glance no relationship is apparent between relative wage dispersion and unemployment levels.

Although the effects of wage setting institutions on trends in the average wage - one of the central issues in the international debate - is not discussed in this paper, a crucial question merits a brief detour: do decentralized bargaining structures mean that wages increasingly lag behind productivity, while industry-wide agreements ensure that workers appropriate a larger share of productivity gains? The instability of wage determination regimes in some countries, in particular the recurrent switch from state control to free or to limited negotiation, discussed above, hinders long-term cross-country comparisons, but in 1990-1995, in the countries examined in this paper, the state had a more limited intervention: governments either imposed restrictions to wage rises or strongly suggested wage guidelines, but in the context of uninterrupted free collective negotiation. A cursory glance at trends in 1990-1995 is revealing: of five countries for which comparable information is readily available (Argentina, Brazil, Chile, Mexico and Peru), only in Chile (with decentralized bargaining) labour costs rose faster than productivity; the largest lag of wages *vis-à-vis* productivity took place in Argentina (with industry-wide negotiation).<sup>46</sup> In the case of Chile, the sharp improvement in the labour market situation (see the reduction of unemployment as compared with the 1980s in table B, Appendix) and the fact that manufacturing employment rose at an annual rate of almost 6 percent in 1991-93, perhaps in combination with some strengthening of labour's rights, probably is behind the gain in wages. The reverse occurred in Argentina, that is, manufacturing employment fell and unemployment expanded, while in Brazil, Mexico and Peru, with less changes in the level of open unemployment, manufacturing employment was declining also. This seems to suggest that

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<sup>43</sup> In Latin America, with the sharp shifts in regimes, the study of comparative dispersion in one single or a few years might be much less representative than in OECD countries.

<sup>44</sup> Ideally it would be necessary to confront wage and productivity differentials (as done by Marshall, 1980, for Argentina).

<sup>45</sup> See Rowthorn (1992) on the importance of gender composition.

<sup>46</sup> ILO estimates on productivity and labour costs (including non-wage labour costs, a function of wages) in manufacturing, in *OIT Informa*, Panorama Laboral '95, 2 (table 3-A). But note that in Mexico the average wage rate of change in 1990-94 (i.e. not counting the large real wage loss of 1995) was closer, though still behind, to productivity growth.

labour market conditions play a much more determining role in relation to wage change than bargaining structures (and this in a way highlights on how weak are labour organizations to neutralize or at least moderate the "reserve army effect" in the region), but only further inquiry will provide more definite evidence.

### Individual country trends

But in each country there seems to be some historical coherence between institutional changes in wage setting and the degree of wage dispersion, although the shifts in the ranking of countries not necessarily reflect this. Chile, for instance, in 1973 had showed the most egalitarian wage structure but jumped to have the third most heterogenous structure by 1980;<sup>47</sup> in this lapse negotiation was forbidden and the government recommended (García, 1994) or decreed (Mizala and Romaguera, 1991) first partial and then full (but based on an underestimated inflation rate) wage indexation according to past inflation. This policy followed the redistributive wage policies of Allende's government (1970-73), that had raised the lowest wages relatively.<sup>48</sup> In this same period wages in Colombia became somewhat less heterogeneous: between 1971 and 1977 there was a restrictive wage policy to control inflation (maximum limits to wage increases were imposed, thus leading to more wage uniformity); besides, from that time more concerted action was pursued by trade unions, that pressured for annual wage increases and standardization of minimum wages, through the pre-existing tripartite National Wage Council in charge of determining minimum wages.<sup>49</sup> In the following decade, 1980-90,<sup>50</sup> wage inequality intensified in Chile, now consistently with the newly sanctioned extremely decentralized negotiation. Wage heterogeneity also increased in Venezuela. In this country, prior to the 1980s, unions were involved in social pacts with the government, and the latter had granted or fixed wage increases, restraining in this way wage heterogeneity. But in the 1980 such social pacts were frustrated and, further, changes in trade union strategies towards greater independence from the state presumably could have meant less acceptance of state wage guidelines; both factors could have led to greater heterogeneity in wage increases, and thereby to

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<sup>47</sup> The coefficients of dispersion provided by UNIDO for 1973 and 1979/80 (table 3) are estimated in a slightly different manner, and cannot be compared with my own estimates.

<sup>48</sup> For more details on wage policies in Chile, see Mizala and Romaguera (1991). Allen and Labadie's (1994) estimates based on ILO data describe a different picture: wage dispersion increased in 1970-73 (during Allende's presidency) and was at the same level approximately by 1980, after a period of declining dispersion.

<sup>49</sup> Londoño Botero (1989).

<sup>50</sup> Argentina's decrease in wage dispersion in this period (table 3) is not consistent with Marshall's (1995) estimates showing the opposite trend (but see note 36 above on UNIDO's 1980 data for Argentina).

a more dispersed wage structure.<sup>51</sup>

After 1988, when wage negotiation was allowed in Argentina, wage inequality increased somewhat, but in fact wage increments did not become more dispersed (Marshall, 1995). In Brazil, from 1979 to 1982, and sporadically also later, the government had fixed differential wage adjustments to inflation, to the detriment of the highest wages; at times, high wage jobs were left open to bilateral negotiation. By the 1990s the tendency was to confine state administered wage adjustments to the lowest wages, increasingly widening the wage range to be negotiated between workers and employers (Sabóia, 1993). Collective wage bargaining expanded throughout the 1980s and 1990s (with simultaneous government wage administration except for a very short lived period in 1989), and was accompanied by a widening of wage differentials (table 3).<sup>52</sup> In Uruguay, after a twelve-year period of government wage control, in 1985 collective bargaining, in general and through the tripartite industry-wide wage councils, was reinstated, and this was followed by the opening of the wage structure as it had happened in Brazil and Argentina.

The labour law reforms of the early 1990s introduced changes in collective bargaining legislation in some countries. In Chile multi-employer bargaining became legal as from 1991, in agreement with the more global turn towards enhancing worker rights after civilians replaced the military in government. But, as we have seen, still in 1993 such agreements represented just a negligible proportion of total agreements signed. Coverage was extended to all workers irrespective of union membership and limitations to the right to strike were somewhat relaxed. In Argentina and Peru, both from 1991, in the framework of economic liberalization policies,<sup>53</sup> decentralized bargaining was encouraged, wage indexation was prohibited, and limitations on

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<sup>51</sup> According to OIT (1995), in 1974-79 there was a fluid mechanism for concerted action (*Comisión de Alto Nivel*), with strong state predominance over employer and trade union representation. A later tripartite body (*Consejo Nacional de Costos, Precios y Salarios*) created to face the early 1980s crisis did not last long and the workers' central organization left it in 1982. Yet another centralized body was created in 1984, with little worker representation, that practically did not function. Davis and Coleman describe (1989) the reorientation of union strategies in the 1980s from economic to political unionism, and towards more autonomy from the state.

<sup>52</sup> In relation to Brazil, Amadeo (1993) argued that the role of the trade union central organization had been to improve relatively the situation of less organized sectors, diminishing disparities relative to a situation in which such organization would be absent. Comparing the period when negotiation expanded with the earlier one of strong state intervention, however, inter-industry wage dispersion increased (1990 versus 1980 in table 3). But Amadeo (1994) using a different estimate of dispersion found decreasing inequality and attributes this to trade union centralization in the 1980s.

<sup>53</sup> In Argentina, this took place in the framework of the stabilization plan (*Plan de Convertibilidad*); in 1993 yet another decree was concerned specifically with bargaining decentralization. In Peru, a new law on private investment (1991), that included regulations on wage increases, was followed by the decree of 1992 on industrial relations.



wage rises imposed: they were not to exceed productivity increases.<sup>54</sup> A closer link between wage and productivity differentials was expected to improve export competitiveness and check inflation. On the other hand, collective bargaining in Uruguay underwent minor reform, in that the government, following a few failed attempts in the same direction as from 1990,<sup>55</sup> finally withdrew from the tripartite wage councils in 1992, after establishing wage guidelines for that year (Rodríguez, 1993; Informe RELASUR 42, 1995); withdrawal was intended to encourage bipartist bargaining in the hope of in this way fostering decentralization, considered to be more appropriate for competitiveness in the context of the ongoing process of regional integration. By 1994 collective bargaining was experiencing increasing bilateralism and some decentralization, although still industry-wide agreements dominated (Informe RELASUR 42, 1995). Did these legislative reforms affect wage dispersion?

In the literature dealing with cross-country comparisons generally the dispersion of wage *levels* is examined, but sometimes it would seem more appropriate to compare the dispersion of wage *increments*. This is particularly true when the impact of institutions on wage dispersion is analyzed within one country over time - governments fix increments, trade unions and employers bargain over rises. Moreover, greater dispersion of increments do not necessarily lead to a more unequal structure. And, even if wage increases were to be equal for all, this automatically would generate an increasing dispersion of wage levels.

Marshall (1995) examined the dispersion of wage increments in Argentina, finding that the change in government wage policy in 1991, towards promoting decentralization and imposing that wage increases should be backed by productivity growth, was followed by a strong jump in the dispersion of wage increases (coefficient of variation of annual average wage increases: 1987-90, .07; 1991-93, .37);<sup>56</sup> this, however, as there was some upward realignment of the lowest wages, had no correlate in the dispersion of wage levels that, on the contrary, decreased.<sup>57</sup> By contrast, in the period immediately after the labour law reform in Peru, that encouraged further decentralization, inequality was intensified: the dispersion of both wage

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<sup>54</sup> In Argentina, these guidelines gave rise to serious problems as to how productivity change should be estimated and interpreted (past or expected productivity growth, etc.).

<sup>55</sup> The earlier intention, not implemented, had been to link wage increases with productivity increases and to "dollarize" wages (Rodríguez, 1993).

<sup>56</sup> Marshall (1995), earnings per hour; 1990-94, .16 (ILO data, earnings per hour, between extreme years).

<sup>57</sup> The post reform period was one of intense restructuring of manufacturing, and the repositioning of industries according to dynamism, in turn linked to new roles in export oriented strategies, might have been accompanied by changes in the pay hierarchy, but as yet this does not seem to have been the case of Argentina (see R 1990 and 1994 in table 2). In any case, as agreements are of different length and there is little synchronization, if it were possible to analyze a longer period some of the short-term diversity might end by being smoothed out.

levels and wage increments increased (coefficient of variation of wage increases: 1987-91 = .40; 1991-94 = .63). On the other hand, in Chile there was no reduction in the dispersion of wage increments (1986-91 = .27; 1991-93 = .27)<sup>58</sup> despite the fact that wider-than-one-firm agreements had been allowed; this is consistent with the negligible use of this opportunity of coalition bargaining, mentioned earlier. However, wage inequality declined: without affecting the dispersion of wage increases, the larger increments now benefitted low wage industries; perhaps it was because the general improvement of worker rights favoured the lowest wage sectors but, most likely, because the minimum wage readjustment policy implemented since 1990 meant that minimum wages increased somewhat faster than the average wage.<sup>59</sup> Finally, in Uruguay, state withdrawal from negotiation, in such a short period, does not appear to have affected the degree of inter-industry dispersion of wage increments (the coefficients of dispersion, rather low, of wage increments are .135 and .138 for 1984-91 and 1991-93, respectively).<sup>60</sup>

The above results point out that promotion of decentralized bargaining tended to lead to the (expected) outcome of somewhat less coordination in wage determination (although, judging by the more thorough study of the Argentine case [Marshall, 1995], with little indication of the wished-for association with differential productivity growth), but more diversity in wage change did not necessarily end in increased inequality in the short term. In any case, the analysis should be extended to a longer period, beyond the transition, to appraise how drastic the transformations have been and, eventually, the impact on trends in wage/productivity relations.

## CONCLUSION: BARGAINING STRUCTURE AND WAGE INEQUALITY

The findings described suggest that, as in OECD countries, at times of free or relatively free collective wage bargaining in the Latin American region there is some relationship between wage inequality and degree of centralization of bargaining structures. One, intra-manufacturing wage inequality tends to be stronger in countries where decentralized negotiation prevailed (Chile and Peru, as well as Brazil if we agree that decentralization is prevalent in this country too), with the exception of Colombia, a case that we tried to account for earlier. Two, wage change in individual countries appears to be more heterogeneous at times of more decentralized bargaining (Argentina and Peru).<sup>61</sup>

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<sup>58</sup> In both countries, initial and final years of each period (source: ILO data on earnings).

<sup>59</sup> See Camargo and García (1992) on minimum wage policy during 1990-92. Data on minimum and average wages (1990-93) are in Riveros (1996).

<sup>60</sup> On the basis of ILO data on earnings per month, index numbers, initial and final years of each period. Data on wage levels are not available.

<sup>61</sup> But, as we have seen, such heterogeneity does not follow the anticipated pattern if wage levels, instead of increments, are examined in Argentina

This notwithstanding, some caveats are necessary. First, that in the countries where bargaining has normally been decentralized, it coexisted with extreme weakness if not outright repression of trade unions and their activities. Second, that the differences in the degree of wage inequality between countries with diverse types of hybrid bargaining structures (in terms of whether either firm or industry-wide agreements are prevalent) are slight, and to this probably contributed the parallel operation of centralized bodies (however embryonic), but even more so the fact that often trade unions were subordinated to government objectives and guidelines, as well as the reiterated histories of state-centralized wage setting. Third, that only the contrast between trends in wage and in productivity differentials, not feasible as yet, could provide a basis for discussing whether trade unions, through more centralized negotiation, contributed to reduce wage inequality by checking wage increases in leading firms and industries or by rising the wages of backward sectors and enterprises. And finally, that really centralized bargaining structures have no illustration in Latin America. Centralized bargaining of the "Nordic" type, where wage increases are balanced against other macro-economic objectives including employment growth, are simply not present in Latin American history. As we have seen, social pacts have been short-lived and tended to play only a formal role, except for some very specific and also ephemeral experiences; recurrently they served to channel state wage directives. Centralization however was not entirely absent, but was achieved through strong state wage control, in the frame of broader economic strategies, that in certain cases contributed to reduce inequality although the aim of lessening wage disparities only rarely guided government policies.

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## APPENDIX

TABLE A. Manufacturing share of GDP, and share of metal-machinery industries in manufacturing  
 Percents (constant 1980 prices)

	% manufacturing/GDP				% metal-machinery/manufacturing	
	1970	1980	1990	1993	1980	1992
Argentina	32.8	29.3	27.8	27.9	28.9	17.8 <sup>a</sup>
Brazil	32.2	33.2	27.5	26.9	24.7	19.2
Chile	24.5	21.4	21.0	20.8	18.9	11.6
Colombia	22.1	23.3	21.7	21.4	13.6	12.7
Mexico	23.0	22.1	22.8	22.5	21.8	23.5
Peru	21.4	20.2	18.9	19.3	10.8	5.1
Uruguay	27.5	28.2	24.5	19.6	10.5	11.5
Venezuela	17.5	18.8	20.5	19.8	13.3	11.0

<sup>a</sup> 1990

Source: CEPAL (ECLAC), *Statistical Yearbook for Latin America and the Caribbean*, 1994.



Table B. Unionization rates and the labour market  
(percents)

Selected Latin American countries

	unionization rate manufacturing	informal sector,* 1990	urban unemployment rate		
			1985	1990	1995**
Argentina	66 <sup>1982-86</sup>	32.6	6.1	7.5	18.6
Brazil	34 <sup>1986</sup>	28.0	5.3	4.3	4.5
Chile	22 <sup>1985</sup>	31.7	17.0	6.5	5.7
Colombia	8 <sup>1984</sup>	31.3	13.8	10.5	8.5
Mexico	34 <sup>1978</sup>	36.0	4.4	2.7	6.6
Peru	54 <sup>1982a</sup>	40.4 <sup>a</sup>	10.1	8.3	8.2
Uruguay	31-72 <sup>1987b</sup>	nd	13.1	9.3	10.4
Venezuela	20 or over <sup>c</sup>	26.2	14.3	10.5	10.3

\* Non-agricultural self employed and unpaid family workers (excluding technical, administrative and professional workers), plus domestic service, in non-agricultural employment

\*\* Second quarter (Peru: third quarter; Colombia: three-quarter average); preliminary data

<sup>a</sup> Lima

<sup>b</sup> varies according to industry (100 percent in the oil sector); no average is available (Cassoni et al., 1994:56).

<sup>c</sup> details in OIT (1995)

Source: Allen and Labadie (1994); J. M. Camargo and E. J. Amadeo, "Labour legislation and institutional aspects of the Brazilian labour market", in *Reestructuración y Regulación Institucional del Mercado de Trabajo en América Latina*, Research Series 98, Geneva: ILS, 1993; A. Cassoni, G. Labadie and S. Allen, "Reformas del mercado laboral ante la liberalización de la economía. El caso de Uruguay", BID, *Documentos de Trabajo* 177, Washington D.C., 1994; S. Feldman, "Tendencias de la sindicalización en Argentina", *Estudios del Trabajo*, 2, 1991; Londoño Botero (1989); OIT (1995); OIT, *Panorama Laboral* 2, 1996; I. Yépez del Castillo and J. Bernedo Alvarez, *La Sindicalización en el Perú*, Lima: Fundación F. Ebert/Pontificia Universidad Católica, n.d.; C. Zazueta and R. de la Peña, *La Estructura del Congreso del Trabajo: Estado, Trabajo y Capital en México*, Mexico: Fondo de Cultura Económica, 1984.